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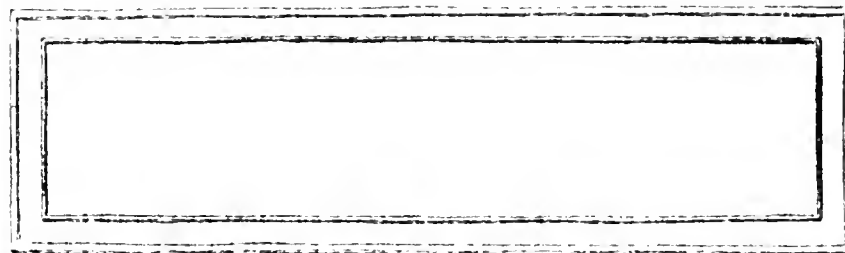
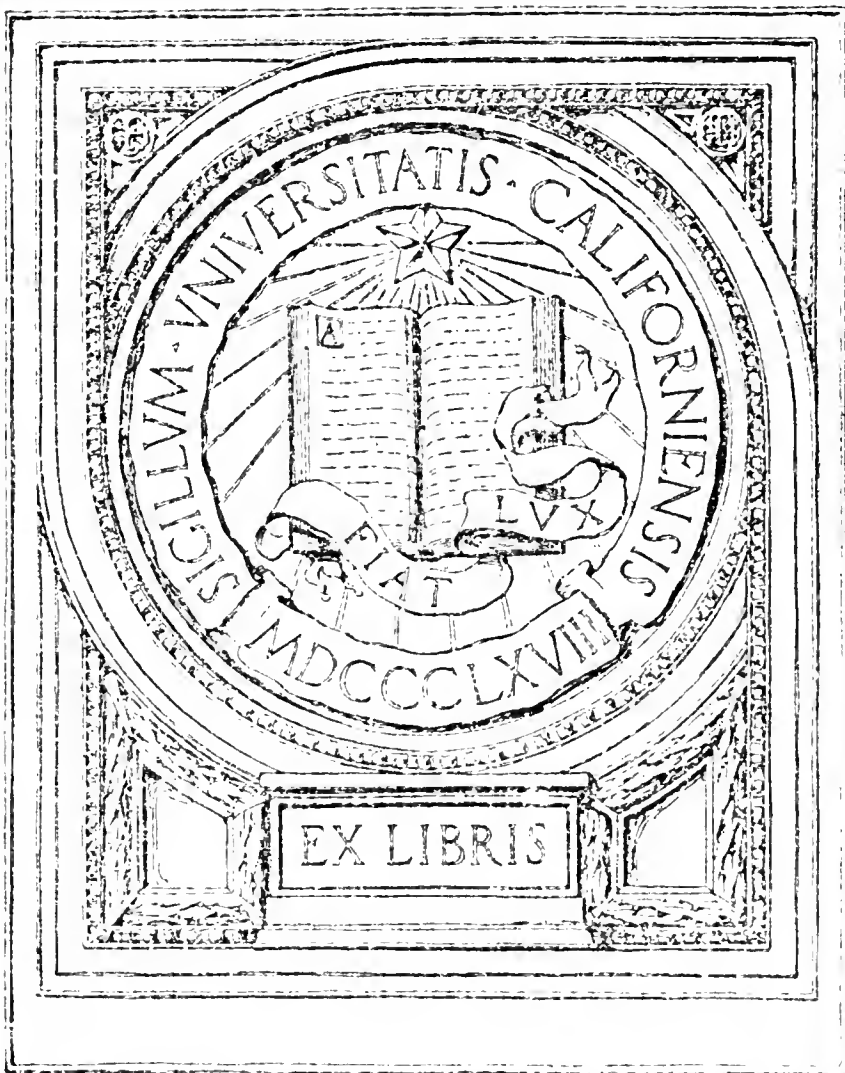
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Canadian Income Tax

THE INCOME WAR TAX ACT, 1917

WITH EXPLANATIONS BY THE MINISTER OF FINANCE

(AS REPORTED IN HANSARD)

AND

INSTRUCTIONS OF FINANCE DEPARTMENT

TABLE OF TAX PAYABLE BY INDIVIDUALS AND
COMPANIES

FULLY INDEXED

BRYAN PONTIFEX

Chartered Accountant

TORONTO

THE CARSWELL COMPANY, LIMITED

19 DUNCAN ST., TORONTO

(The Compiler's profits will be donated to the Navy League of Canada)

INCOME.	AMOUNT OF INCOME TAX PAYABLE.		
	Unmarried persons and widows or widowers without dependent children.	Other Individuals.	Corporations and Joint Stock Companies.
\$	\$	\$	\$
2,000	20
3,000	60
4,000	100	40	40
5,000	140	80	80
6,000	180	120	120
7,000	240	180	160
8,000	300	240	200
9,000	360	300	240
10,000	420	360	280
11,000	510	450	320
12,000	600	540	360
13,000	690	630	400
14,000	780	720	440
15,000	870	810	480
16,000	960	900	520
17,000	1,050	990	560
18,000	1,140	1,080	600
19,000	1,230	1,170	640
20,000	1,320	1,260	680
30,000	2,520	2,460	1,080
40,000	3,920	3,860	1,480
50,000	5,320	5,260	1,880
60,000	7,220	7,160	2,280
70,000	9,120	9,060	2,680
80,000	11,020	10,960	3,080
90,000	12,920	12,860	3,480
100,000	14,820	14,760	3,880
200,000	43,820	43,760	7,880
300,000			11,880
400,000			15,880
500,000			19,880
600,000			23,880
700,000			27,880
800,000			31,880
900,000			35,880
1,000,000			39,880

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THE INCOME WAR TAX ACT, 1917

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THE
INCOME WAR TAX ACT, 1917.

WITH EXPLANATIONS BY THE MINISTER OF FINANCE

(As reported in Hansard)

AND INSTRUCTIONS OF THE FINANCE DEPARTMENT

7-8 GEORGE V.

CHAP. 28.

An Act to authorize the levying of a War Tax upon
certain incomes.

[Assented to 20th September, 1917.]

HIS Majesty, by and with the advice and consent of
the Senate and House of Commons of Canada,
enacts as follows:—

1. This Act may be cited as *The Income War Tax Act, 1917*. Short title.

2. In this Act, and in any regulations made under this Act, unless the context otherwise requires,— Definitions.

(a) “Board” means a Board of Referees appointed under section twelve hereof; “Board.”

(b) “Minister” means the Minister of Finance; “Minister.”

(c) “normal tax” means the tax authorized by paragraph (a) of section four of this Act; “Normal tax.”

(d) “person” means any individual or person and any syndicate, trust, association or other body and any body corporate, and the heirs, executors, administrators, curators and assigns or other legal representatives of such person, according to the “Person.”

SECTION 2—Continued.

law of that part of Canada to which the context extends;

“Supertax.” (e) “supertax” means the taxes authorized by paragraphs (b) to (g), both inclusive, of section four of this Act;

“Taxpayer.” (f) “taxpayer” means any person paying, liable to pay, or believed by the Minister to be liable to pay, any tax imposed by this Act;

“Year.” (g) “year” means the calendar year.

Partnerships. SIR THOMAS WHITE: We do not assess a partnership as such. We assess the individual partners. Let us say that A. and B. are partners carrying on a business. We do not make an assessment against A. and B. for income which they jointly derive, but we make an assessment against A. as to his interest in the income which he derived and his share of the undistributed profits, and against B. similarly; and in that way we assess the partners.

Women. SIR THOMAS WHITE: “Person” includes women. Husband and wife includes a wife who has an income in her own name. . . I think it well that both wife and husband should be assessed in respect of their assessable income, and should be entitled to the exemption of \$3,000 each (but see Sec. 4 (4)).

Husband and wife. MR. LEMIEUX: The husband is liable, and the wife is also liable?

SIR THOMAS WHITE: Yes.

Marriage settlement. MR. A. K. MACLEAN: A case might arise where the tax would be imposed twice. For instance, take the case of a marriage settlement paid under the terms of the settlement out of the income of a husband. The husband might be taxed for it, and it might be of such an amount when received by the wife that she would be liable to taxation also for the same thing.

SIR THOMAS WHITE: No.

MR. A. K. MACLEAN: If a man pays \$10,000 a year under a marriage settlement to a trustee, that would be part of his income, and he would pay tax on it. When it is paid by the trustee to the wife, she would be in receipt of an income of \$10,000 a year, and she would be liable to taxation. It might be argued that the tax would be imposed twice.

SIR THOMAS WHITE: It would certainly not be so held, because while the husband might have an income, this amount paid under the marriage settlement would be among his liabilities. I think it would be held that the husband would be liable to taxation on his net income, that is to say his income less the amount he was obliged to pay to his wife.

MR. A. K. MACLEAN: In any event, the investment would be in the name of the trustee?

RE SECTION 2—Continued.

SIR THOMAS WHITE: *If the husband set aside securities in trust, clearly he would divest himself of those securities, and the interest would be interest derived by the trustee, not by the husband.*

MR. LEMIEUX: *It is often arranged in marriage settlements that the amount to be paid shall be considered as alimony. In such a case would the alimony be assessable?*

SIR THOMAS WHITE: *If the wife had an income under a marriage settlement in excess of the exemption provided for by this Act, whether it is called alimony or not, it is the intention that she should be assessed.*

MR. GERMAN: *An incorporated company is to be assessed and then the persons deriving incomes from that incorporated company are also to be assessed. There would certain to be a double assessment, one of the incorporated company and one of the individuals who derive their incomes from the incorporated company.* Income of companies and shareholders.

SIR THOMAS WHITE: *While the company is assessed on its income its shareholders are also assessed upon their incomes, but there is an allowance made to the shareholder of the normal tax when the normal tax has been paid by the company upon the dividend which he receives. While we assess a corporation upon its income to the extent of the normal tax, when we come to assess the shareholders in respect to their incomes including the dividends which they receive from the corporation so assessed, we make an allowance equal to the normal tax which the corporation has paid upon the dividends derived by the shareholders. A corporation is liable on its income only to the normal tax, and that the shareholders who will have to make returns of their income to the department will, when they are making such returns, be permitted to deduct the normal tax in respect of dividends derived from companies subject to this taxation. As to that portion of their income subject to the super-tax, they will pay, because the corporation is liable only to the extent of the normal tax.* Allowance to shareholders.

SIR THOMAS WHITE: *"Persons" will embrace minors as well as others if they have the income.* Minors.

3. (1) For the purposes of this Act, "income" means Income.
the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a Fees.
trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be; and shall include the interest,

SECTION 3—*Continued.*

dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source; including the income from but not the value of property acquired by gift, bequest, devise or descent; and including the income from but not the proceeds of life insurance policies paid upon the death of the person insured, or payments made or credited to the insured on life insurance endowment or annuity contracts upon the maturity of the term mentioned in the contract or upon the surrender of the contract; with the following exemptions and deductions:—

Profits,
whether
distributed
or not.

Excepted
income.

- (a) such reasonable allowance as may be allowed by the Minister for depreciation, or for any expenditure of a capital nature for renewals, or for the development of a business, and the Minister, when determining the income derived from mining and from oil and gas wells, shall make an allowance for the exhaustion of the mines and wells;
- (b) the amount of income the tax upon which has been paid or withheld for payment at the source of the income under the provisions of this Act;
- (c) amounts paid by the taxpayer during the year to the Patriotic and Canadian Red Cross Funds, and other patriotic and war funds approved by the Minister;
- (d) for the purposes of the normal tax, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any company or other person which is taxable upon its income under this Act: Provided, however, that in determining the income the personal and living expenses shall not be taken into consideration.

Holding
companies.

(2) Where an incorporated company conducts its business, whether under agreement or otherwise, in

SECTION 3—*Continued.*

such manner as either directly or indirectly to benefit its shareholders or any of them, or any persons directly or indirectly interested in such company, by selling its product or the goods and commodities in which it deals at less than the fair price which might be obtained therefor, the Minister may, for the purposes of this Act, determine the amount which shall be deemed to be the income of such company for the year, and in determining such amount the Minister shall have regard to the fair price which, but for any agreement, arrangement or understanding, might be or could have been obtained for such product, goods and commodities.

(3) In the case of the income of persons residing or having their head office or principal place of business outside of Canada but carrying on business in Canada, either directly or through or in the name of any other person, the income shall be the net profit or gain arising from the business of such person in Canada. Non-residents.

(4) For the purpose of the supertax only, the income of a taxpayer shall include the share to which he would be entitled of the undivided or undistributed gains and profits made by any syndicate, trust, association, corporation or other body, or any partnership, if such gains and profits were divided or distributed, unless the Minister is of opinion that the accumulation of such undivided and undistributed gains and profits is not made for the purpose of evading the tax, and is not in excess of what is reasonably required for the purposes of the business. Undistributed gains.

ON SECTION 3—INCOME:

MR. COCKSHUTT: *How is one's income to be computed? I venture to say that there are very few people in this country who know exactly what their income is. They may be desirous of having the proper amount entered, but there are so many factors that have to be taken into consideration in connection with the origin and net result of a man's income. Suppose, for instance, a man has \$75,000 invested in real estate and that \$50,000 of that amount is invested in a paying enterprise which allows him to take care of his municipal taxes, fire insurance, depreciation, and the general upkeep of* Computation of income.

RE SECTION 3—Continued.

his property. The other \$25,000 may be bringing in nothing, but the taxes have still to be paid and the necessary repairs made. Is any allowance made for what may be called "depreciation of capital" in a real estate investment? Everybody knows that when property is vacant it rapidly deteriorates. Vacant property is a very rapid income destroyer. I have had a good deal of experience in that line, and I know that a man's income can be eaten into very rapidly by unproductive property. I venture to say that anybody who owns very much real estate has some unproductive property that is not only not bringing him in any income, but is actually eating into the income he receives from other sources. I have a good deal of that kind myself at the present time, as I have no doubt a good many men in this House have. Has the Minister taken that into consideration, and is any allowance to be made for this depreciation of capital? In other words, if a man has a certain amount of income from one source, and some other investment in property has depreciated in value and eaten into his income, is that taken into account in calculating the amount of income that will be liable to taxation? I am not, of course, wishing to escape paying what I should legitimately pay, but if the Minister should ask me what my income was in any one year, though I keep books and endeavour to make an entry of everything, I should have the very greatest difficulty in telling him what my income was, and that being so, how will a man who keeps no books and makes no entries ascertain his income? Take, for instance, the farmer; he probably keeps his wife and family out of the products of his farm. He does not begin to estimate his expenditure until he goes outside of his family expenses, which are provided for by the farm. I only instance this as one case, because it occurs in many other callings. A merchant often helps himself to the goods in his own store, not counting this as really part of his income. Those are a few of the difficulties which present themselves in estimating an income. I would also like the Minister to tell me whether any regard is to be paid to the depreciation which may occur in a man's property. For instance, he might be worth \$100,000 this year, and when he makes his returns at the end of the year he may find his property is only worth \$90,000. He has lost \$10,000 on his investment. Will he be allowed to deduct that \$10,000 from his \$15,000 income, or will he be assessed on the whole \$15,000, and be obliged to look after the depreciation himself?

Deprecia-
tion of
property.

SIR THOMAS WHITE: I think it would be a very dangerous admission to make that the estimate made by a taxpayer that his property has depreciated to the extent of, say, \$5,000 or \$10,000, would be sufficient to justify that \$5,000 or \$10,000 being deducted from his income. It would be proper for the man who has productive properties to take into account the rentals received, and to pay the taxation and the repairs actually made in connection with those properties. The balance might fairly be considered his net income. My hon. friend raises the question as to whether

RE SECTION 3—Continued.

there should be an allowance for depreciation. I do not think it possible to get an income taxation down to a mathematical nicety such as is suggested where the amount of annual depreciation would be allowed because it would be almost impossible to estimate such depreciation, and as against that there would have to be set off the possible appreciation of that property, because real estate does appreciate. In the administration of an income tax you must get down to a sound, but rough-and-ready basis—a basis of good sense. How much did the man derive from his real estate investments? How much did he actually pay out for taxes and repairs? The balance is his income. I do not believe he should be allowed to deduct the depreciation of his property, because the fact that it might have appreciated in value has also to be taken into consideration. I do not think we can get it down to a basis where you can set off the depreciation the tax-payer thinks he might fairly be entitled to deduct in respect to property, even property which may be vacant. The depreciation would appear in the returns, and I think the onus would be very strongly on the taxpayer to show beyond peradventure that such depreciation had taken place. I do not like to admit the principle that depreciation should be allowed. Take another case—which might come within the instances my hon. friend has brought to the attention of the House—a man has an income of, say, \$10,000; he is carrying a piece of unproductive real estate in the West, upon which he has to pay taxes. I do not think he should be allowed to deduct the taxes he pays in respect of that property. His income is the return he derives from his profession or calling. If he is carrying a piece of real estate for purposes of speculation, he could carry it himself. I draw the distinction between that case and the case of a man who is deriving income from properties which are productive. His income is the rentals he receives from such properties, but he is entitled to take into account what he pays in the way of taxes, and repairs actually made.

Appreciation of property.

Real estate investments.

Unproductive real estate.

Real estate speculation.

MR. A. K. MACLEAN: I thoroughly agree with the Minister. I do not see how you can introduce any such principle into the Bill that would meet the case mentioned by my hon. friend (Mr. Cockshutt). A private individual might as well urge that his physical strength is depreciating from year to year, and that his earning capacity is growing less, and therefore he should have some allowance made for physical depreciation. Take the case the Minister has just cited. Say a man is resident in Toronto, and is in receipt of an income of \$25,000 a year, and say he has unproductive property in the West which requires a disbursement on his part of \$5,000 a year for taxes. In estimating his income, surely that \$5,000 would not be taken into account?

SIR THOMAS WHITE: I do not follow my hon. friend.

MR. A. K. MACLEAN: I understood the Minister to say that the fact a man was paying an annual tax bill of \$5,000 upon unproduc-

RE SECTION 3—Continued.

tive property in the West would not be taken into consideration in calculating his income?

SIR THOMAS WHITE: *My view is he should not be allowed to deduct it because his income is \$25,000 and he is speculating in the West—*

MR. PUGSLEY: *Suppose this unproductive property was in Toronto, instead of in the West?*

SIR THOMAS WHITE: *The reason I mentioned the West was because my hon. friend referred to it.*

MR. A. K. MACLEAN: *Suppose a professional man has an income of \$25,000 a year, and he owns an unproductive property in the city of Ottawa, the taxation on which is \$5,000; surely, he would only be liable upon an income of \$20,000.*

Productive
property.

SIR THOMAS WHITE: *If part of his income was from productive property then he should be allowed to deduct taxes and repairs. My hon. friend put forward the case of a man holding unproductive property in the West, upon which he was paying taxes. These are very difficult questions to deal with, but I do not think he should be exempt from this income tax to the extent of what he pays for taxes on unproductive property held for speculation. Let me cite a case in regard to which I have had a good deal of experience. Take the income taxation of the city of Ottawa, or the city of Toronto—the assessor goes to a bank, say, and asks for the names of the officials of the bank and their salaries, and he assesses from \$5,000 down, if the salaries are such. Those in receipt of the incomes may use them in different ways. Some may spend their incomes foolishly, others may invest in property, others may be carrying investments at a loss, others may pay taxes upon their homes, but the assessment is upon the amount of income received as salary. That is the way all assessments are made in this province. A man is not asked what he does with his income, he is not asked whether he invests part of it in mining stocks or whether he pays taxes upon property with which he is speculating, or whether he pays margins upon stocks. He is simply assessed upon his income. Every man in the city of Ottawa is liable to assessment on the amount of income he receives. If he is a Minister he pays income tax upon his \$7,000 or whatever it may be; if he is an official he pays also. Once you introduce the principle that a man in receipt of a salary of \$25,000 can deduct the taxation which he is paying upon property which may be appreciating very much faster than the amount of the annual taxation, you are introducing a very dangerous principle into taxation. I do not believe that that principle is included in any taxation in this Dominion. The point is: How much does a man make? If he is a lawyer, how much does he make after paying out all expenses in connection with his profession? Then I would say that after deducting the outgo from what he has received the balance is the income of that individual and he should be assessed upon it.*

Disposal of
income.

Income.

RE SECTION 3—Continued.

MR. PUGSLEY: Supposing his entire business was the owning and managing of real estate? Entire business real estate.

SIR THOMAS WHITE: My hon. friend has raised a point which is absolutely different from that which we are now considering. We are considering now the case of an individual who derives his income from his profession or calling and who has to pay taxes upon some property which he has been carrying for the purpose of speculation or not—it does not make any difference.

MR. PUGSLEY: Take myself, for example. The only property I own practically is real estate. I might have three or four houses which were bringing me a very good income and I might have other places which were vacant, and on which I had to pay insurance, water rates and taxes. Would not the net income from all these different properties combined be that on which I would have to pay the tax? Income from real estate.

SIR THOMAS WHITE: I would say "yes," and my hon. friend would take all the incomes from these productive properties, and that he would pay the taxes on this other unproductive property deducting with respect to it, and the balance would be his income.

MR. PUGSLEY: Suppose I had unproductive property in Ontario or in the West? Unproductive real estate.

SIR THOMAS WHITE: I would say that if my hon. friend was carrying some unproductive property with the idea of making money on its appreciation he should not be allowed to deduct it.

MR. PUGSLEY: Suppose a man were carrying it because he could not sell it and had to pay the taxes?

SIR THOMAS WHITE: In a taxation measure of this kind, while that and every other principle should be discussed you will never be able to determine with mathematical exactness—the courts usually have to determine that — as to what should be allowed. It would be very dangerous to lay down the principle that if a man has an income of \$25,000 and he is carrying unproductive property throughout this country, not being a man who is making his income from the holding and administration of real estate, he should be allowed to deduct the charges on this property from his income. If you adopt that view, you are introducing a very dangerous principle and one which should not be allowed.

MR. LEMIEUX: My hon. friend is making a distinction between say a professional man who goes into an occasional real estate deal and a man whose calling is real estate. Real estate business.

SIR THOMAS WHITE: A landlord who has a number of houses.

MR. LEMIEUX: If a man who buys real estate and has to pay a large part of his income in municipal and other taxes, the amount which he so pays would be deducted from his income. That is what I gather from the remark of my hon. friend. But a professional man, say a lawyer, who has bought some real estate, even if the real estate is not a revenue producer, has to pay the taxes and he cannot deduct that from his income?

RE SECTION 3—Continued.

Real estate speculation.

SIR THOMAS WHITE: *I would say not. If a man is carrying unproductive property and is paying taxes upon it, I do not know why he should assume that he is losing money by doing so. I think we must assume the contrary, namely, that the annual increment on the property is equal to the taxation which he is paying out. I think it would be a very unsound principle to lay down that a man should deduct from the income which he makes from his trade, profession or calling, the amount which he may pay out in taxes upon property in which he is speculating.*

MR. COCKSHUTT: *I do not wish to embarrass the Minister in any way in coming to a conclusion. I can quite see that if the Minister's statement was followed out to its logical conclusion and finality, a man might be paying on an income when he really did not have an income at all but rather an outgo. There are such men.*

Investment in real estate.

The Minister must know, as I certainly know, that there are men who are known as property poor. Such a one may not be a speculator. Investment in real estate is considered to be a legitimate enterprise. If it is not I am sorry I am in the business. But, I have been the owner of real estate for many years, believing that it was a sound investment, and I have been in that way trying to build up the community of which I am a part. The Minister in reply to the hon. member (Mr. A. K. Maclean), said that if a man had an income of \$25,000 and \$5,000 of it was going to carry a dead horse in the West, or anywhere else,—not necessarily in the West because we have lots of them in the East—this \$5,000 should not be deducted. Well, reverse it. Suppose a man has an income of \$5,000 and he has \$25,000 to pay out, where is he going to be? He will be paying on the \$5,000 but he will be \$20,000 worse off than he was at the beginning. I know many men who would be very glad of the opportunity of unloading their real estate but who are carrying it and who are what is known as property poor. They have property that is unproductive and they are trying to meet the losses on that property out of the revenue derived from property that is productive. That has been the case in many towns and cities in Ontario. It is impossible for anybody in the renting business to build a house at the present high prices of labour and raw material and make a return of six per cent. on his investment, unless he is a remarkably capable man. It is the exception rather than the rule that a man has a six per cent. return on his investment in real estate. I think the Minister should take this into his serious consideration, because there are many men who went into real estate not as a speculation but as a legitimate investment. All our trust companies are in real estate as a legitimate field of investment. If the principle which the Minister has enunciated is carried out to its logical conclusion a man's income will go into one pocket and go out of the other twice as fast, until his capital is entirely consumed. A man with an income of \$5,000 or \$10,000 may have an outgo of \$15,000 or \$20,000. The Minister should make an allowance for certain conditions; before the final balance is struck he

RE SECTION 3—Continued.

should distinguish between productive real estate, and vacant and unproductive property..

In other words, the net results of his property operations for that year should be the amount he derived from his real estate. I cannot see it in any other way, and I am not saying this with a view to depreciating the amount that the Minister should get, but simply to arrive at a basis whereby we may calculate what is just and fair and right to a man who has made his investment, believing it to be straightforward and honest.

SIR THOMAS WHITE: If we admit the principle that we must take into consideration depreciation in real property and securities, and in addition to that the taxation that a man may pay out upon unproductive property which he holds, we shall go a long way to defeat the purpose of this Bill. Depreciation in real property.

MR. COCKSHUTT: I would not take the depreciation without also taking the appreciation; I would take the two together.

SIR THOMAS WHITE: My hon. friend says he would not take the depreciation without taking the appreciation. We all know how difficult it is to determine the value of a piece of property at any time, and how arbitrators differ. How is the department to determine what the annual depreciation has been in a piece of property upon which a man has paid out taxes? I think there is a clear distinction between the case of a landlord with a row of houses from which he derives his income, his principal business being the administration of his property in those houses, his income being the revenue he derives from them, and his outgoings the taxation and repairs upon those properties for which he has paid during the year, and his income, for the purposes of this Act, being the difference between the two; and the case of a man who, in his calling, derives a net income of \$25,000, and who uses that \$25,000, either in speculation or in legitimate investment. For the purposes of this taxation measure, we ought to ascertain a man's income in his calling, and having determined that, assess him on that amount under this Act. Take my own case: I own some property in Canada which is non-productive, and upon which I pay, say, \$1,200 or \$1,500 in taxes. I say that I should be assessed on my income derived as a Minister and any other income I may have, and that I should not be allowed to deduct the amount I paid in taxes on that unproductive property. Real estate productive property. Real estate, income from.

MR. PUGSLEY: Suppose that, instead of being an individual, it was a real estate company? Real estate company.

SIR THOMAS WHITE: That is different.

MR. PUGSLEY: It owns land with buildings on it in one block, and in the next block land which is not bringing in any income. If it is a company the Minister will allow its revenues to be put on one side and its total taxation on the other. Why should the individual be treated more harshly than the company?

SIR THOMAS WHITE: The corporation is in that business. It could not legitimately own the property unless it was in that busi-

RE SECTION 3—Continued.

ness. A real estate agent should be assessed on any income he derives in respect of his business. A man owning property, deriving income from that property, should be assessed on his income in respect of that business. But the banker, who has an income of \$25,000 from the bank, should, in my opinion, be assessed upon the \$25,000, no matter what he does with the money.

Income from
real estate.

SIR HERBERT AMES: Say that there is a block of houses that are rented regularly. If that is owned by a joint stock company you take the total rentals from the houses and deduct the total expenditure in connection with the properties, and, we will say, you have \$1,000 to the good. You are taxed as a company only on the \$1,000. But supposing that I, an individual, wishing to live on investments, erect a block of buildings, and that the gross income is \$5,000, and that the gross outgo is \$4,000, so that the net value to me is \$1,000, shall I be taxed on the \$5,000?

SIR THOMAS WHITE: You will be taxed on the \$1,000 because you are deriving part of your income from these properties.

MR. PUGSLEY: If all in one row, but suppose there are two separate blocks in the same town.

SIR THOMAS WHITE: The same principle would apply. The danger in allowing deductions for taxation upon non-productive property is that it is impossible to ascertain how much that property has appreciated in the year, and the man may be speculating with it.

MR. PUGSLEY: That would apply to the row of houses too.

SIR THOMAS WHITE: Yes, and it would be open to the court to say how much it had appreciated or depreciated, but for the purpose of practically administering an Act such as this, you could not hold an inquiry as to how much each piece of property had depreciated. I should say that the onus would be on the taxpayer to show affirmatively and beyond doubt that there had been a loss in connection with that property.

MR. LEMIEUX: I think that the Minister ought to explain what he understands by net income.

Income, de-
finition of

SIR THOMAS WHITE: I have a very clear view as to what would be included in income as defined by this Bill. I have always found, and I think the courts have found, that it is better to take a word in its plain, common-sense meaning. If a man is employed as an official, let us say, in a bank, and receives a salary of \$5,000, his net income for the purposes of this Act will be \$5,000 because he earns that sum from his occupation. The question has been raised: supposing that man, in addition to having a salary of \$5,000, derives \$1,000 more by way of rental from some houses which he owns. Let us assume that he has to pay out in connection with this house \$300 for taxes, repairs, and other outgo. He derives from that particular investment \$700 net; therefore, if he has no other investments outside from which he derives income, his net income for the purposes of this Act is \$5,700, made up of

RE SECTION 3—Continued.

\$5,000, which he earns from the bank, and \$700 the net income from the productive property which he owns. Let us take the further case which was under consideration. Assume that an official drawing a salary of \$5,000 owns some unproductive property — let us say, some vacant land, and that he pays, in order to retain that land, \$1,500 or \$2,000. My own opinion is that his income, notwithstanding the fact that he pays out that amount in respect of the unproductive property which he holds, is \$5,000, the income which he derives from his calling. To show my hon. friend the fairness of the view which I put forward, let us compare the two cases. Two men, let us say, are employed by the Bank of Montreal, and each draws a salary of \$10,000. One of these men has no outside property at all; he spends the entire \$10,000 upon himself and his family. Clearly he is assessable for \$10,000, which is his income. The other man spends only \$1,500 or \$2,000 upon himself and his family—he may have a smaller family—and with the balance of the money speculates in stocks or pays taxes upon property which he holds and which gives him no return. Would anybody seriously argue that the first man should be taxed upon \$10,000, and that the other man should not be taxed at all, or should be taxed only upon \$2,000 or \$3,000? Get it down to a common-sense basis. What is the man's income from his trade, profession or calling? If he is an official what is the amount of his income? — if he is a lawyer, how much does he make out of his office after paying the necessary outgoings? We are not concerned with what he does with the money after he gets it; we are concerned with the amount of his net income. If he spends it on his family; if he wastes it; if he speculates in stocks with it, or if he buys lands for investment and pays taxes upon them, — we have nothing to do with that. But, if he has some landed property outside from which, after paying the necessary outgoings in respect to that property, he derives additional income, we add to the salary which he gets in his official position the net amount which he receives from that investment, and the two together will make his assessable income. Disposal of income.

MR. LEMIEUX: Suppose a man has a net income of \$5,000 and, on account of unproductive property which he holds, he is obliged, by the law, to pay municipal taxes to the extent of \$2,000. Of his income \$3,000 is exempt. Do you assess him upon \$5,000 or upon \$3,000? In any case, he has to pay the municipal taxes. Will he have to borrow in order to pay the federal taxation?

SIR THOMAS WHITE: This measure does not and cannot provide how a man will find the money to pay his income tax. In the case mentioned, the income of the party is \$5,000. If he is married, he is entitled to \$3,000 exemption; therefore, he will be taxed upon \$2,000 and will be liable to pay \$80. As to how he will get that money, I am not in a position to say, but he will be liable for it under this Act. I do not see how it could be otherwise, unless we reduce the Act to a nullity.

RE SECTION 3—Continued.

MR. C. A. WILSON: Suppose a lawyer collects in fees \$5,000 in a year, and the expenses of running his office are \$3,000, his net revenue for purposes of taxation will be \$2,000?

SIR THOMAS WHITE: Yes.

SIR WILFRID LAURIER: In section 3 it is provided:

Undistri-
buted
profits.

"Income . . . shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment."

That is quite intelligible, but I want an explanation upon what follows:

"And, whether such gains or profits are divided or distributed or not."

Partnership,
tax on pro-
fits, not only
on drawings.

SIR THOMAS WHITE: My right hon. friend has touched upon a very important provision of this measure, and he asks a very proper question. We have been desirous of assessing, not only the amount which a man may choose to take out from his business, but also his share of the profits which are actually earned by the partnership during the year. A partnership might earn \$100,000, and if it was assessed as a partnership, the assessment would be upon \$100,000 less the exemptions. But the partners might say: There is an income tax and we will not take \$50,000 apiece—if that was the share to which they were each entitled;—we will take only \$5,000 apiece, and will pay income tax only upon that \$5,000. That would not be fair. My right hon. friend would have to pay upon his income because it is definite and ascertainable; but if a partner were entitled to one-half of the partnership profits, and if he took only part of his profits out of the business and that were counted as his income, he would escape taxation on part of what he had really earned in the partnership. If we are going to assess an individual who is in business upon his profits in that business, then we should assess a partnership, or a joint stock company upon its profits in its business. But we assess the partners individually upon their incomes, and therefore it is necessary to assess them not only upon the profits that are actually distributed, but upon the profits to which they are entitled. There is one point in this connection to which my right hon. friend has drawn attention. Following the words which he has quoted, we have these words:

"And whether such gains or profits are divided or distributed or not."

Sharehold-
ers assessed
on earnings.

The intention was that we should assess shareholders in respect not only of the dividends which they actually receive, but also of their share in the earnings of the company though not actually distributed amongst them. The idea was to prevent the company from paying a small dividend and piling up large reserves which it could at any time distribute to its shareholders. But there is in the Bill a provision further on. Subsection 4 of the same section provides that:

Section 3,
subsection 4.

"For the purpose of the supertax only, the income of a taxpayer shall include the share to which he would be entitled of the un-

RE SECTION 3—Continued.

divided or undisturbed gains and profits made by any syndicate, trust, association, corporation or other body, or any partnership, if such gains and profits were divided or distributed, unless the Minister is of opinion that the accumulation of such undivided and undistributed gains and profits is not made for the purpose of evading the tax, and is not in excess of what is reasonably required for the purposes of the business.”

Shareholders, when liable to supertax in respect of company's earnings.

There are some privately-owned companies which might defeat the purpose of this Act by paying a small dividend and accumulating profits instead of distributing them amongst their shareholders. This subsection is to prevent such an evasion of the tax. I can see a possible hardship in that shareholders who are not seeking to evade any liability under this measure and who receive, let us say, a dividend of 10 per cent., would find themselves, under the express terms of this measure, assessable for, say 12 or 15 per cent. because the company earned at that rate.

Privately owned companies.

SIR WILFRID LAURIER: I present my views to my hon. friend as I understand this Bill. The principle of the measure is that every entity should be taxed—a corporation, a partnership; and then besides that, the partners or the shareholders who receive their share of the profits. Every business ascertains its profits for the year. Then it considers its liabilities, the contingent possibilities in the way of losses or the need for improvements. After having provided for these things, it distributes to its shareholders or to its partners the excess profits. My hon. friend taxes first the profits of the company, and then he taxes what is left in the entity, that is to say, in the partnership or association. Then he taxes also what comes to the shareholders or the partners. I raise no objection. But the measure may work a very severe hardship to a corporation. Suppose a corporation has earned \$100,000 of profits during the year and distributed \$50,000 to its shareholders and retains \$50,000 to provide for contingent liabilities, or necessities, or losses. The Minister takes the power to assess the corporation in respect of what may be its intention in so acting. Every association, whether it be a partnership or a corporation, works for individuals. If it keeps its profits in its coffers, it is to that extent acting to the detriment of the partners or shareholders, but for the benefit of the partnership and in that way for the ultimate benefit of the partners or shareholders. Therefore, if it keeps that amount back in good faith for the interest of the company, I think that should be taken into consideration. If on the other hand this action is taken to evade taxation and to cheat the revenue, that is a different matter. It seems that in this measure no distinction is made between an honest intention and a fraudulent intention. We presume that the intention on the part of the taxpayer would be to have the Bill honestly enforced. This should be taken into consideration.

SIR THOMAS WHITE: I think no difficulty is likely to arise in the case presented by my right hon. friend. Take such a case as he mentions—that of a company earning profits of \$100,000,

RE SECTION 3—Continued.

Company's allowance for bad debts and contingent liabilities.

It is proper for that company to deduct from its gross revenue enough to make allowance for bad and doubtful debts and for any contingent liabilities—I am not speaking of some liability of a fanciful nature that might be expected in the remote future. When these items are deducted from the gross revenue the result is the net profits. Having done that—and it is open to a company to do that, and companies do it, because it is sound from an accounting standpoint—if the company has still a net income of \$100,000, even although it distributes only \$50,000 to its shareholders, it should pay the normal tax of 4 per cent. upon the whole \$100,000. That is the net income, just as my hon. friend's net income is the amount which he derives as an individual.

Assessment of partnerships.

My right hon. friend, I think, is a little mistaken, possibly, as to how we assess partnerships. We do not assess a partnership as an entity; the assessment is not against the partnership, but against the individual partners. We assess a joint stock company upon its net earnings, according to a proper definition of that term, making them pay the normal rate of 4 per cent. In the case of the shareholders of that company, who pay upon income partly made up from the dividends received from the company, under a provision which we shall reach later on in the Act, an allowance is made to the extent of the dividends which were taxable which they have received from the company. The provision to which I specially draw attention is to prevent privately-owned companies—companies with a few shareholders, family concerns—from paying out small dividends and accumulating an immense reserve which could be distributed at a later date.

Privately owned companies.

SIR HERBERT AMES: *Let me cite a case in connection with undistributed profits which would work a very real hardship. The figures I shall give are not exact, but it is a case of which I have personal knowledge. We are going to tax the revenues of 1917. Now I know of a firm that ran behind \$100,000 in the year 1915. In the year 1916 it came out about even, and in the year 1917 it made \$100,000. They always carried forward from year to year a certain amount of profit and loss out of which the dividends are paid. Now in the third year, although \$100,000 had been made, in view of the fact that nothing had been made in the previous year, and \$100,000 lost the year before, no dividends were paid. The three years were taken as one, and the business has practically stood still. I think the firm did a wise thing in paying no dividends. If you are going to tax this undistributed \$100,000 which they made in the third year, you are going to do an injury, because you are asking them to pay on profits that were never made.*

Undistributed profits, when subject to supertax.

SIR THOMAS WHITE: *That would be a case in which the discretion of the Minister could be exercised, as provided in the subsection. It is only where the intent is to defeat the Act that these undistributed profits will be subject to the supertax.*

Undistributed gains.

SIR THOMAS WHITE: *By sub-section 4 provision is made for the application of a supertax to undistributed gains or profits provided that the Minister is of the opinion that the accumulation of such undivided and undistributed gains and profits is made for the*

RE SECTION 3—Continued.

purpose of evading the tax. My own view is there is not likely to be an attempt at abuse, except in the case of a close corporation, and in such a case I think wise discretion would have to be exercised to see that the corporation paid the proper share of taxation. Every corporation will be assessed by the department in respect of its net income at the normal rate of 4 per cent.

Clause (d) of subsection (1) of section 3 provides that "for the purpose of the normal tax, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any company or other person which is taxable upon its income under this Act." Having assessed all the companies, when we get a return from a shareholder, he will be entitled to credit of the amount paid by the corporation upon dividends he received which are embraced in this return.

Taxpayer to receive credit for the tax paid by the Co. on his dividends.

MR. LEMIEUX: Will he do that himself, or will the department do it?

SIR THOMAS WHITE: He will make a return showing how his income is made up. Say, part of his income was derived from shares in a company which has paid the normal tax upon its income. In that case he would be credited with the amount which was so paid. The department would scrutinize his return, and in preparing his assessment would make the necessary allowance. Subsection 4 of section 7 provides that all corporations, associations, and syndicates shall make a return of all dividends and bonuses paid to shareholders and members. That would help the department in making the necessary adjustments.

Companies to make returns of dividends paid.

MR. LEMIEUX: Would it not be better to have the companies deduct the tax of the individual shareholders?

SIR THOMAS WHITE: No, they pay their own in full, then we make the allowance in the case of the individual shareholders. Answering my hon. friend's second question; if he asks the question from a strictly legal point of view, I should say that a shareholder receiving accumulated dividends would be liable to taxation on those dividends as part of his income.

Accumulated dividends.

MR. LEMIEUX: Then, it is retroactive?

SIR THOMAS WHITE: If they were cumulative for a period of two or three years, my view would be that in the administration of the Act it would be fair to make the assessment of the dividends for one year, that is if it was a preferred dividend. I shall consider the matter, because I do not like to have anything left to the discretion of the Minister, or the referees. I think, legally speaking, if a shareholder gets cumulative dividends for three or four years in one payment in a year, it is part of his income for the year.

MR. GRAHAM: A difficulty might be that in all matters of assessment the assessment of one year is taken, in a measure, as the basis for the next year. No matter what the return may be the officer in charge will simply look it over and see that a man received, say, \$800 in dividends last year from a certain company, and this year he only acknowledges \$150.

RE SECTION 3—Continued.

There are, as the hon. gentleman has said, companies that have paid no dividends for several years, but within the last year they have been catching up on the arrears of dividends. There will be some injustice in charging what was really, or what should have been, their income for two or three years back as the income for this year.

Bond
coupons.

MR. LEMIEUX: When you speak of dividends you should speak of coupons which represent a fixed amount. A certain big hotel company issued coupon bonds, but a few months after the war broke out that company ceased to honour its coupons. It is expected that in a year or two the company will be in a position to pay the coupons. In that case I do not see any reason why you should not make an allowance for the coupons which were due, but unpaid, before this Bill came into operation.

SIR THOMAS WHITE: I am afraid we could not do that. In the back years they did not receive their interest in a particular year, but they do receive their interest after that and they will have to pay on that.

MR. LOGGIE: Referring to subsection 4 of section 3, and dealing with the supertax only, it is not uncommon to find companies in business for many years but never declaring any dividends. They may make some profit, but they never have money to pay dividends. They are borrowers from the bank and all the profits that are available go to pay indebtedness, yet the books may show substantial profits. Or these profits may be locked up in investments that are not liquid, and cannot be easily converted into money..

Individual
with salary
and rents.

Subsection 4 of section 3 provides that surplus profit, undivided, may be assessable for the supertax if the Minister says so. I would point out that when profits are undistributed, or left in the business, the profits from the business in the following year will be greater than they were previously, when the profits were distributed in the way of dividends. That is something that the Minister ought to take into consideration. I wish to draw the attention of the Minister to another matter in connection with the net income of private individuals. A man who conducts, say, a dry-goods business is known as a business man. A private individual earning a salary and receiving, besides his salary, rents from houses that he owns, so that his net income is \$3,000 or \$4,000, would be considered, I assume, as a business man, and his transactions would be treated in the same manner as those of any business firm?

SIR THOMAS WHITE: Yes.

Bond
interest.

MR. NESBITT: Does the Minister propose allowing a corporation to deduct bond interest before assessing the profits at the end of the year?

SIR THOMAS WHITE: Without doubt, interest upon bonds is a fixed charge and net profits are only ascertained after deducting interest upon underlying charges, all interest payments, operating expenses and overhead—in other words, the net profits, according to a properly drawn balance sheet.

RE SECTION 3—Continued.

MR. NESBITT: A corporation having no bonds and having stock will be in a very much worse position than a corporation that just carries bonds.

SIR THOMAS WHITE: I saw that argument advanced in one of the newspapers, but I submit it is not sound. The corporation that has a share capital pays upon its net earnings and its shareholders, upon receiving their dividends, are credited with the tax that is paid by the corporation. Take the case of a company which has a large bonded indebtedness. The holders of those bonds, not the company, are assessable under this Income Tax Bill for the incomes which they receive. The holder of the bonds pays upon the earnings of the company which are used to pay its bonded interest.

MR. NESBITT: My hon. friend is quite right as to the individual shareholder or bondholder, but he is not right as to the corporation, as the corporation with stock is paying the four per cent. on the whole profit, whereas the corporation with bonds outstanding has that four per cent. deducted.

SIR THOMAS WHITE: I understand that the corporation in the one case would pay a considerable sum, let us say, and in the other case it would not. But if you take that corporation with only a nominal share capital and distributing all its net profits to its bondholders, its bondholders are the virtual proprietors of the company. I do not mean to say that they are legally the proprietors, but they are virtually the proprietors of the company because they hold its bonds and they get, by way of interest, all of its earnings or practically all of its earnings. Now take the case of the company that has no bonded indebtedness but has a large share capital and pays out dividends to its shareholders. The shareholders there are virtually the proprietors of the company, not legally, but virtually the proprietors of the company as the bondholders in the former case are virtually the proprietors of that company. That is to say, they take all of its earnings. The net result is about the same because the bondholders are assessable as individuals in respect to the bond interest which they derive. It is true that the other company is assessed upon its net earnings, but the shareholders in their assessment are allowed to credit the amount which the company paid in respect of the dividends which form part of their income. Therefore the bondholders in the one case and the shareholders in the other are virtually the proprietors of the two companies and they are both taxed and are taxed upon about the same basis.

MR. LEMIEUX: I notice among the exemptions:

"Such reasonable allowance as may be allowed by the Minister for depreciation, or for any expenditure of a capital nature for renewals, or for the development of a business. And the Minister, when determining the income from mining and from oil and gas wells, shall make an allowance for the exhaustion of the mines and wells."

Exhaustion
of assets.

There are other businesses in which something akin to exhaustion may take place. Take real estate. A man may buy three or four acres and derive income from their sale, but as the sales take

RE SECTION 3—Continued.

place that source of income becomes exhausted; part of the income is a return of capital.

Return of capital.

SIR THOMAS WHITE: Undoubtedly there is a return of capital in such a case, and even if no provision existed in the statute, we should properly make an allowance in respect to the exhaustion of mines and oil wells. In a real estate transaction such as my hon. friend mentioned a certain amount of the return would be regarded as return of capital and a certain amount as profit. We would deal only with the profit.

Proceeds of an insurance policy.

MR. PUGSLEY: From the Minister's statement to my hon. friend for Rouville (Mr. Lemieux) it might be inferred that the proceeds of an insurance policy paid to a widow would be exempt. Did he not mean that it would not come in as part of the income for that year, but that later it would be subject to taxation as part of her capital? It becomes capital or principal upon the income from which this statute operates.

SIR THOMAS WHITE: True, later.

Taxes on vacant houses.

SIR THOMAS WHITE: I do not mean to say that, if a man had a row of houses from which he received rents, and if there were some vacancies in those houses during the year, he would not be allowed to deduct, from the total income which he received from the row of houses, the taxes which he would pay in respect of the vacant houses as well as of those not vacant.

MR. PUGSLEY: Suppose there are two rows of houses in different parts of the city, or suppose the rows are in different towns. Why should there be any difference?

Deduction of taxes from rents received.

SIR THOMAS WHITE: There is no difference if there are two rows of houses. Let us take two rows of houses and say that a man derives from those \$5,000 a year and that some of them during the year are vacant and others are occupied, but that they are two rows of houses from which he has been in the habit of deriving an income. Nobody would contend that he should not be allowed to deduct the taxes from the income which he would receive in respect of those two rows of houses. Let us go back to my former example. Two men have each a salary of \$10,000. One man has a family to keep and spends the entire \$10,000 upon himself and his family in their maintenance and education. The other man has a considerable quantity of real estate, and has to pay out \$4,000 or \$5,000 of his income on taxes. We must not assume that that money is lost. He is paying it out to protect his own property; and the first man that I have mentioned would have every reason to complain if we assessed him upon the full \$10,000 and explained to him as a reason why we did not assess his neighbour who drew precisely the same salary as he did, that he held a good deal of real estate and took a considerable amount of that income to pay taxes upon that real estate. I think the first man would have a real grievance. He would say: His income is the same as mine; I spent mine in keeping my family and educating my children, and he spent his in paying taxes upon some unproductive real estate which may give him an excellent return in years to come. I do not

Disposal of income.

RE SECTION 3—Continued.

believe we should go back of the man's income. If a man has an income of \$10,000, and diminishes that income by losses he makes on real estate, or by amounts paid for taxes, or otherwise, what is the difference between that and the man who has an income of \$10,000 and loses \$5,000 in a stock speculation? He might say: "I have lost \$5,000 in stocks, therefore I want you to assess me at \$5,000, instead of \$10,000." We should say, "No, your income was \$10,000; you speculated in stocks, which is not the ordinary course of your business at all, and you lost this money; that does not affect your income, which is \$10,000." If you laid down the principle that you would allow a man to deduct losses made in business in which he is not engaged, such as stock speculation, or real estate speculation, you might just as well never pass the Act, because it would be evaded in numberless ways. The true principle of the matter is, what is a man's income? Every one knows what you mean. If you ask a man on the street "What is so-and-so's income?" nobody will misunderstand you. You will be told it is the amount he gets from his employer, if he is employed. If, on the other hand, his income is derived from stocks, bonds or securities, everybody understands it is what he receives in the way of interest and dividends upon those securities. It is a common-sense matter. My hon. friend quoted section 3, to show that not only was individual income included—that is to say the individual income of a man from his trade, profession or calling—but also his income from investments. We all know what that means. It means his income from investments after he pays any necessary outgoings in connection with those investments, whether it is house property or not, plus the income he receives in his trade, profession or calling. It is not for us to inquire what he does with his income after he gets it. We are not interested in knowing whether he loses it in a stock speculation, or spends it foolishly. If you have to follow what a man does with his income, and allow it to be urged that he lost it in a stock speculation, or in a real estate speculation, or spent it foolishly, you might just as well never pass the Act.

MR. COCKSHUTT: I have a piece of property which has been in the family for three generations. It has come down to me as an inheritance and I would hesitate to part with it. I am not what you would call a real estate dealer, but I have my investments largely in real estate, and as a business man I have made my returns for years to the city of Brantford as to my income. I should be very sorry indeed to think I was deceiving them, but I have taken a course which I am bound to say is the course I would take if the Finance Minister asked me to tell him what my income was—I would do my best to tell him my net income, deducting all expenditures in the way of taxes, repairs, insurance and everything of that kind, which every man who owns property knows he has to make.

SIR THOMAS WHITE: There is no objection to that.

MR. COCKSHUTT: But, according to the Minister, there is an objection to it. He instances the case of a man who loses part of

RE SECTION 3—Continued.

his salary in speculating and real estate. When I make my returns to the Brantford assessors, I deduct the repairs, taxes, insurance, and everything. On the other side, I put the rent received, and the difference is my income. I think that is the fair way of doing it, and it was with a view to getting the matter settled and enabling a man to make a proper return to the department that I raised the question. I am, in a small way, a trustee for some real estate, and I know this method of making returns has been found equitable and satisfactory by the courts. If it is proper for a trustee, it ought to be proper for an individual. There is another point I wish to mention. If the Finance Minister tells a man he has an income of \$25,000, and the man himself says "My income is only \$15,000," it is up to the Minister of Finance to show him where the \$25,000 is. If a man only has an income of \$15,000, and it is sought to assess him on an income of \$25,000, I think he has a very reasonable grievance against the Government. I am not saying this with a view to paring down at all, because I am quite satisfied and willing to pay anything I may be called upon to pay under this Act; but, as a man who has to make a report, I do not want to be subject to a \$10,000 fine for making a false report. I was not dealing at all with the matter of salary or anything but an income from real estate, which income is the difference between the revenue and the outgo or expenditure. It seems to me that is equitable and right. I cannot see it in any other way.

Taxes on unproductive property.

SIR THOMAS WHITE: We were discussing the question raised by my hon. friend from Rouville (Mr. Lemieux), whether a man with a salary of \$10,000 should be allowed to deduct from it the taxes which he might pay in respect of some unproductive property which he held. If a man's income is derived from real estate his calling, so to speak, is that of a landowner, although, of course, he is not a professional man in that sense. He has to take his unproductive houses and estimate the net return, as my hon. friend has suggested. The proposition I am laying down is that a man with an official salary of \$10,000 should not deduct from it the \$1,000 or \$2,000 that he may have to pay in taxes on unproductive property. I am in the position where I shall have to pay in this respect just like other people. I have to pay taxes on unproductive property, and I certainly do not intend to deduct the taxes from my income. I think that is how the boards will construe the Act. That is the way they have construed the income tax legislation of the United States.

Real estate capital and profits.

MR. MCCREA: Suppose that a man has two properties that he is carrying on his books at a certain value. One of them he sells for possibly twice what he is carrying it at. Would that be considered as income for that year? The other property he sells at a loss. How would the Minister treat that? If one is counted as profit, the other should be counted as loss. As I understand the Minister, capital will have nothing to do with profits. If a man has a property and sells it at a profit of 20 or 50 or even a hundred per cent. that will not be taxed. If he sells his property at a loss, do I understand that he will not be allowed to deduct that amount?

RE SECTION 3—Continued.

SIR THOMAS WHITE: *I think I agree with my hon. friend. It would not be fair to count as income in any given year the profit which one might make on the sale of real estate which a man had held for a number of years, for that would not be annual gain, and I do not think it would be possible to apportion a certain amount of it in respect of the year in question. The same argument would apply to the other property. A great number of the questions that have been raised here are of theoretical importance, but not likely to become a practical issue in the administration of the Act. In connection with the Business Profits War Tax we had many cases where properties were sold at a profit after being held for a number of years. But in the working out of the Act it was recognized that that was not gain for that particular year and no difficulty was experienced.*

MR. VERVILLE: *Suppose I am paying \$1,000 interest on a property mortgage? Would I be allowed to deduct that amount from my income? If I am taxed on that \$1,000, and the man who receives it counts it as part of his income and is also taxed on it, that would be double taxation?*

Mortgage interest paid.

SIR THOMAS WHITE: *In the case my hon. friend suggests, where he is paying \$1,000 interest upon a mortgage upon some property which he holds, he would be entitled to deduct from the revenue which he derived from that property the interest which he paid on the mortgage. On the other hand, the mortgagee would derive from my hon. friend the thousand dollars which would be a part of his income.*

MR. LEMIEUX: *Take the case of a man who buys some stock and makes only a partial payment and the stock is hypothecated with the bank. Let us say that I buy 500 shares of Ottawa Electric, and that I pay for 100 shares, the bank carrying the stock, how should I be assessed in that case?*

Partial payment on stock bought.

SIR THOMAS WHITE: *This Bill will work out in this way: My hon. friend, we will say, is entitled to \$1,000 on those shares, out of which he has to pay \$600 to the bank for carrying them. The balance of \$400 would be the net earnings which my hon. friend would derive from the investment.*

SIR THOMAS WHITE: *I want to make it perfectly clear that by this legislation it is not provided that a man may deduct from the amount of his taxation the amount he contributes to the Patriotic and Canadian Red Cross Funds.*

Payments to Patriotic and Can. Red Cross Funds.

That is a deduction from the total amount of a person's income. If a man's income is \$10,000 a year and he subscribes and pays \$1,000 to the Canadian Patriotic Fund, then he would be entitled to deduct that and say that his income for the purpose of taxation is \$9,000, but he is not entitled to say: My tax under this measure is \$400 or \$500, and because I have paid \$400 or \$500 to the Patriotic Fund, I am not entitled to pay anything more.

MR. LEMIEUX: *I was asked this evening if a subscription made this year to the Patriotic Fund or to the Red Cross Fund would be*

RE SECTION 3—Continued.

deducted in accordance with the explanation given by my hon. friend.

SIR THOMAS WHITE: Yes, this Bill applies to incomes for the calendar year. Therefore, any contribution made during this calendar year may be deducted from the income.

I have endeavoured to bear in mind that if the tax is too heavy it may seriously affect contributions to the Patriotic and Red Cross Funds, which have been so generously supported by the people of Canada. But if we allow contributors to these funds to deduct these contributions from the amount of taxation to which they are liable under this measure, will that not be tantamount to our paying their subscriptions? There might be cases in which subscribers have subscribed, and will subscribe, more than the amount of their taxes, but it would seem to me that if we took their subscriptions as cash in payment of the taxes under this measure, the Government would simply be paying their contribution and assuming the burden of the fund to that extent. My hope was and is that this income tax, while undoubtedly heavy, is not unduly heavy, having regard to war conditions, and that the well-to-do people of this country who have done so well with the Patriotic and Red Cross Funds will still continue their subscriptions. I have believed it desirable not only that the Patriotic Funds and Red Cross should be sustained, but that these contributions should be continued in the interests of the donors themselves, because when a man gives to the Patriotic Fund or any other worthy object, he really benefits himself as well as the object to which he is contributing. In connection with the Patriotic Fund these contributions have made for patriotic spirit which has meant a great deal in connection with the prosecution of this war. I should dislike very much there being any feeling that discrimination existed. Some citizens subscribe directly; others concur in legislation taxing themselves and others for the purposes of the Patriotic Fund. Probably each taxpayer will indicate in his return the amount for which he has been taxed for patriotic funds.

Revenue
from Dom.
war loans.

MR. MARCIL: If a man has invested in Dominion war loans and has derived a certain revenue therefrom, is that revenue exempt?

SIR THOMAS WHITE: All war loan issues are exempt from Dominion taxation.

Holding
companies.

ON SUBSECTION 2, SECTION 3—HOLDING COMPANIES:

SIR WILFRID LAURIER: What is the meaning of this? Can my hon. friend give a concrete case?

SIR THOMAS WHITE: If a company owns all the stock of another company, there is no reason why it should not take the product of that second company at any price that may be agreed upon irrespective of whether it is a fair market price or not, because the first-named company owns all the shares of the second. There might be an international case in which a company in the United States would own all the shares of a company in Canada. The Canadian company might be doing a highly profitable business

RE SECTION 3—Continued.

if it was carrying on its affairs in the usual course, but by reason of a contract which it might have with the United States company to sell its products at a very low rate, it might show no profits at all. I may say this section is the same as the one in the Business Profits War Tax Act, inserted for the purpose of making such companies contribute reasonably under that measure of taxation.

ON SUBSECTION 3, OF SECTION 3—NON-RESIDENTS:

SIR HERBERT AMES: *May I ask the Minister what will happen in a case like this. I know a gentleman in Montreal who is manager of a large business concern. He is an American citizen, and still holds, technically speaking, his residence in the United States. He is taxed on his income in the United States, but he draws his income as a salary in Canada. Will he be taxed a second time in Canada, and therefore have to pay two income taxes?* Non-residents.

SIR THOMAS WHITE: *I should say the Government which should give away would be the Government of the United States. This gentleman is domiciled in Canada and is drawing his salary in Canada. There is no reason why he should not pay the income tax. If he is subject to an income in the United States, that is a matter he should take up with the United States Government. I cannot see how we could distinguish his case from the case of any one else drawing a salary in Canada.*

MR. LOGGIE: *Does this subsection include a corporation?*

SIR THOMAS WHITE: *Yes.*

MR. LOGGIE: *Does a corporation doing business in Canada, whose head office is in the United States, have to make up a statement of the revenue from its Canadian business?* United States Co. doing business in Canada.

SIR THOMAS WHITE: *Yes.*

4. (1) There shall be assessed, levied and paid, upon the income during the preceding year of every person residing or ordinarily resident in Canada or carrying on any business in Canada, the following taxes:— Income tax.

(a) four per centum upon all income exceeding fifteen hundred dollars in the case of unmarried persons and widows or widowers without dependent children, and exceeding three thousand dollars in the case of all other persons; Over \$1,500 in certain cases and over \$3,000, 4 per cent.

and in addition thereto,

(b) two per centum upon the amount by which the income exceeds six thousand dollars and does not exceed ten thousand dollars; and, Over \$6,000 to \$10,000, two per cent.

SECTION 4—*Continued.*

Over \$10,000 to \$20,000, five per cent. (c) five per centum upon the amount by which the income exceeds ten thousand dollars and does not exceed twenty thousand dollars; and,

Over \$20,000 to \$30,000, eight per cent. (d) eight per centum of the amount by which the income exceeds twenty thousand dollars and does not exceed thirty thousand dollars; and,

Over \$30,000 to \$50,000, ten per cent. (e) ten per centum of the amount by which the income exceeds thirty thousand dollars and does not exceed fifty thousand dollars; and,

Over \$50,000 to \$100,000, fifteen per cent. (f) fifteen per centum of the amount by which the income exceeds fifty thousand dollars and does not exceed one hundred thousand dollars; and,

Over \$100,000 twenty-five per cent. (g) twenty-five per centum of the amount by which the income exceeds one hundred thousand dollars.

Corporations pay 4 per cent. Fiscal year of corporations. (2) Corporations and joint stock companies, no matter how created or organized, shall pay the normal tax upon income exceeding three thousand dollars, but shall not be liable to pay the supertax; and the Minister may permit any corporation subject to the normal tax, the fiscal year of which is not the calendar year, to make a return and to have the tax payable by it computed upon the basis of its income for the twelve months ending with its last fiscal year preceding the date of assessment.

Partnerships not liable to ax. (3) Any persons carrying on business in partnership shall be liable for the income tax only in their individual capacity.

Transfer of property to evade taxation. (4) A person who, after the first day of August, 1917, has reduced his income by the transfer or assignment of any real or personal, movable or immovable property, to such person's wife or husband, as the case may be, or to any member of the family of such person, shall, nevertheless, be liable to be taxed as if such transfer or assignment had not been made, unless the Minister is satisfied that such transfer or assignment was not made for the purpose of evading the taxes imposed under this Act or any part thereof.

SECTION 4—Continued.

(5) Taxpayers shall be entitled to the following deductions from the amounts that would otherwise be payable by them for income tax,—

(a) from the income tax accruing for the year one thousand nine hundred and seventeen the amounts paid by any taxpayer for taxes accruing during the year one thousand nine hundred and seventeen under the provisions of Part I. of *The Special War Revenue Act, 1915*, and from the income tax payable for any year thereafter the amounts paid by the taxpayer for taxes accruing during such year under the said Part I. of the said Act; and,

(b) from the income tax accruing for the year one thousand nine hundred and seventeen the amounts paid by any taxpayer under *The Business Profits War Tax Act, 1916*, and any amendments thereto for any accounting period ending in the year one thousand nine hundred and seventeen. In the case of a partnership each partner shall be entitled to deduct such portion of the tax paid by the partnership under *The Business Profits War Tax Act, 1916*, as may correspond to his interest in the income of the partnership.

SIR THOMAS WHITE: A corporation is liable to taxation upon its profits, whether distributed or undistributed. There is a clause—section 3 (4)—to the effect that undistributed profits which were in the opinion of the Minister being held for the purpose of evading the tax would be subject to the supertax.

SIR THOMAS WHITE: It is perfectly clear. In the first place four per cent. is collected upon all incomes exceeding \$3,000. That is the starting point. If a man has an income of \$100,000 the way you start to determine how much he is to pay is this: You subtract \$3,000 from \$100,000, that leaves \$97,000, and of that you take four per cent.

SIR WILFRID LAURIER: The normal tax runs all the way up?

SIR THOMAS WHITE: All the way up to \$100,000. Take the concrete case of a man with an income of \$7,000. In the first place he is entitled to be taxed at the rate of four per cent. upon all his income in excess of \$3,000. Four per cent. upon \$4,000 is \$160. Then, as the income exceeds \$6,000 by \$1,000, there is two per cent.

RE SECTION 4—Continued.

additional upon that \$1,000, which is \$20. Add \$20 to \$160 and you have \$180 as his tax.

Income of husband and wife.

I think it well that both wife and husband should be assessed in respect of their assessable income, and should be entitled to the exemption of \$3,000 each, but in order to prevent evasion of the tax subsection 4 of section 4 has been inserted.

The effect of that will be that bona fide transfers, some of which might occur, will of course not be affected, but if the circumstances are such that the transfer is made for the purpose of evading the tax, in order that the benefit may be had of the double exemption, this subsection will meet the case. I think the Act as it stands with exemptions to each, is probably fair. The law of the several provinces recognizes the right of property in the wife as an individual, and it seems to me she should be entitled to exemption.

Large profits.

SIR THOMAS WHITE: *I want to say a word or two with regard to the question of large profits. Take a balance sheet which shows that a concern makes, we will say, \$1,000,000. The man who is not acquainted with a balance sheet thinks that that means that this firm has made \$1,000,000 in cash. How are these profits carried? They may be in stocks of goods bought at the top of the market, at the high prices prevailing in war time, in raw material bought at higher prices than have ever prevailed before; they may be represented by extensions of plant which have been made during the year, and instead of the firm or company having \$1,000,000 in cash they may owe this \$1,000,000, or they may owe the bank \$100,000 or \$200,000 at the end of the year. It has a bearing upon the amount of actual cash it is proper to take out of these firms by means of the Business Profits War Tax. The balance sheet will show that, but the statement goes out to the country that a company has made \$1,000,000 and an uninformed man might reach the conclusion that they made \$1,000,000 in cash, whereas it may have gone into extension of plant, or stocks of goods which will depreciate next week or before they are sold, or into raw material which, when worked up into finished product, shows a loss. Thus, in dealing with the question of how much cash a company or a business has, you must have regard to the situation that prevails in that way. The situation is that the taxation power of the Government is not exhausted and it will be exercised at the proper time, having regard to the conditions that then prevail and to the necessities with which we are then confronted arising out of the war.*

SIR WILFRID LAURIER: *Under the conditions which my hon. friend has just stated, a balance sheet showing \$1,000,000 of profits one part of which has gone into extension of plant, another into goods on the shelf and another into raw material, is my hon. friend to tax the business in accordance with the principle laid down in section 3 of the Bill in the following words:*

"And shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and whether such gains or profits are divided or distributed or not."

RE SECTION 4—Continued.

SIR THOMAS WHITE: There is no doubt that under this income tax measure, if a company such as my right hon. friend has in mind—let us say a commercial company—shows by its balance sheet that it has made a net profit of \$100,000, even although that net profit is represented in goods, which will be taken according to the inventoried value, the tax will apply to the \$100,000. Profits taxable however represented.

SIR THOMAS WHITE: It has been stated that this income tax is to take the place of the Business Profits War Tax Act. It is intended to do nothing of the kind. Business Profits War Tax Act.

This income tax legislation does not refer to the Business Profits War Tax at all, except to this extent: If an individual or a firm or a company has to pay the tax imposed by the Business Profits War Tax Act, and if that is greater than the amount for which that individual or firm or company would be liable under this income taxation measure, then the individual or firm or company pays the greater tax, and does not pay the income taxation. . . . The Business Profits War Tax Act was introduced in 1916, and at that time it was stated, and it so appears in the measure itself, that liability to taxation under section 3 of that Act, which is the operative clause, would terminate on December 31, 1917. On 1917 profits company pays the greater tax.

Let us see what the position is. I pointed out to the House that this measure was introduced in 1916, and it was retroactive in effect. It applied to profits made in 1915, although such profits had in many cases been distributed to shareholders or invested in plant. What is the position of the Business Profits War Tax Act to-day? It is this: the individuals, firms and companies who are liable under that tax paid out of their profits of 1916, because the tax was retroactive, the amount to which they were liable in respect of 1915, and they pay this year, 1917, upon their profits of 1916. Next year, 1918, they will pay a heavy taxation against their profits of 1917. The point I make is that this was a three year measure, retroactive, and that is the feature which is lost sight of for one year. They paid in 1917, and they will pay in 1918, the heaviest business tax in the world. That holds the situation until 1918, so far as concerns those who are making abnormal profits out of the war. This income tax provides that if by chance there should be any firms—and I believe there will be very few indeed—whose taxation under the business profits war tax payable next year, in respect of their earnings this year, will be equal to or less than the taxation which they would pay under this measure, they may deduct it. That is all it means. The idea is simply they are not to pay the heavy business profits war tax and this income tax as well.

MR. PARDEE: Do they deduct the amount of the income tax under this Bill from their original business war tax, and pay the business war tax in full?

SIR THOMAS WHITE: No, it is the other way around. Supposing my hon. friend was fortunate enough to be taxable next year, 1918, to the extent of \$100,000 under the Business Profits War Tax Act

RE SECTION 4—Continued.

amendment of this year, and supposing if that Act were not in existence he would be liable under this legislation to pay \$50,000, he would pay the \$100,000. He pays the larger tax.

HANSARD, p. 4819.

MR. PARDEE: *As I understand this matter, the hon. Minister of Finance has practically said that the Income Tax is being introduced in lieu of what is known as the Business Profits War Tax.*

SIR THOMAS WHITE: *No, that is not correct.*

MR. PARDEE: *As I understand the matter, the Business War Tax is to come to an end, and will not be continued after the end of the year.*

SIR THOMAS WHITE: *The Business Profits War Tax, by its terms, comes to an end on December 31st of this year. When that measure was introduced, it was thought the war would be at an end by that time. I stated expressly the other day that we should tax abnormal business profits resulting from the war and in the next Budget that I bring down we shall deal with that matter.*

MR. PARDEE: *Can we take it in this way: that the present War Tax Profits Bill expires December 31, 1917?*

SIR THOMAS WHITE: *By its terms.*

MR. PARDEE: *Will there be a renewal?*

SIR THOMAS WHITE: *I have stated that next year a taxation will be imposed on excess business profits. I stated also the other day that it might be necessary to make some allowance for necessary plant extensions, but I laid down the principle, as strongly as I could, that abnormal business profits due to the war must be abnormally taxed.*

5. The following incomes shall not be liable to taxation hereunder,—

- (a) the income of the Governor General of Canada;
- (b) the incomes of Consuls and Consuls General who are citizens of the country they represent and who are not engaged in any other business or profession;
- (c) the income of any company, commission or association not less than ninety per cent. of the stock or capital of which is owned by a province or a municipality;
- (d) the income of any religious, charitable, agricultural and educational institutions, Boards of Trade and Chambers of Commerce;

SECTION 5—*Continued.*

- (e) the incomes of labour organizations and societies and of benevolent and fraternal beneficiary societies and orders;
- (f) the incomes of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies, except such amount as is credited to shareholders' account;
- (g) the incomes of clubs, societies and associations organized and operated solely for social welfare, civic improvement, pleasure, recreation or other non-profitable purposes, no part of the income of which inures to the benefit of any stockholder or member;
- (h) the incomes of such insurance, mortgage and loan associations operated entirely for the benefit of farmers as are approved by the Minister;
- (i) the income derived from any bonds or other securities of the Dominion of Canada issued exempt from any income tax imposed in pursuance of any legislation enacted by the Parliament of Canada; and,
- (j) the military and naval pay of persons who have been on active service overseas during the present war in any of the military or naval forces of His Majesty or any of His Majesty's allies.

ON SECTION 5—INCOMES NOT LIABLE TO TAX; PARAGRAPH (j):

MR. GRAHAM: *I presume that, as a matter of fact, comparatively few incomes of men at the front will be taxable any way?* Military and naval pay.

SIR THOMAS WHITE: *Some. Their pay is exempt.*

MR. GRAHAM: *I know that the pay they receive as members of the military forces is exempt but their entire incomes are not exempt. Has the Government considered the question of exempting the entire incomes, up to a certain amount, of men who are serving at the front?*

SIR HERBERT AMES: *They will be exempt to the extent of \$3,000 besides by this Bill.*

MR. GRAHAM: *I imagine they will be exempt up to \$3,000. But suppose a man's income is \$5,000, would it be unreasonable*

RE SECTION 5—Continued.

that, in consideration of the fact that he is serving at the front, he should be exempt to that extent? I have not thought of the matter very much. It was suggested to me to-day. I am not sure of the effect it would have on the finances, but the Minister might think it over and it might be worthy of consideration.

SIR THOMAS WHITE: I think it worthy of consideration. As a matter of fact there is no exemption we could give that would be more than these men deserve, but when we exempt the military and naval pay of those who have been on active service overseas, we practically exempt them all from the income tax levied because there is a \$3,000 exemption besides.

MR. GRAHAM: That is for married men.

SIR THOMAS WHITE: Yes, and \$1,500 for single. My own view is that there will be no taxation for those who are at the front.

SIR HERBERT AMES: What is the argument in favour of paragraph (h)?:

Farmers' insurance and mortgage associations.

The incomes of such insurance, mortgage and loan associations operated entirely for the benefit of farmers as are approved by the Minister.

Supposing a co-operative, mortgage or loan association was conducted for the benefit of people who were not farmers? In the cities there are co-operative building societies.

SIR THOMAS WHITE: Paragraph (f) exempts them:

If a company is not operated for the gain of the shareholders it will be exempt.

Racing association.

MR. MURPHY: Is the Minister satisfied that under paragraph (g) of section 5 a club or association, with the ingenuity, for instance, of a racing association, could not bring itself within that exemption? If the Minister has given the matter thought, I would ask him for an answer. If he has not, I would commend the matter to him.

SIR THOMAS WHITE: I think the word "non-profitable" would exclude such associations. It is not the intention to exempt a racing association that is operated for gain.

MR. MURPHY: Racing associations would not admit they are operating for gain.

SIR THOMAS WHITE: The question is one of fact. If any gain were made, they would clearly be liable under this measure. The object of this exemption is obvious on the face of it.

Payment of tax at source.

6. (1) All persons in whatever capacity acting, having the control, receipt, disposal or payment of fixed or determinable annual or periodical gains, profits or income of any taxpayer, amounting to or exceeding fifteen hundred dollars in the case of unmarried persons or widows or widowers without dependent

SECTION 6—Continued.

children, and three thousand dollars in the case of all other persons, shall, on behalf of such taxpayer, deduct and withhold an amount equal to the normal tax payable upon the same under this Act, and shall pay the amount so deducted to the Minister, and shall also make and render a separate and distinct return to the Minister of such gains, profits or income, containing the name and address of each taxpayer.

(2) When the income tax of a taxpayer is withheld and deducted under the provisions of this section, such taxpayer shall not receive the benefit of any exemption or deduction under this Act unless he shall, not less than thirty days prior to the day on which the return of his income is due, under section seven hereof, (a) file with the person who is required to withhold and pay the tax for him a notice in writing claiming such exemption or deduction and thereupon the tax to the extent of such exemption or deduction shall not be withheld from such taxpayer, and, (b) file with the person aforesaid and with the Minister such return of his income and a statement of the deductions and exemptions as the Minister may direct.

No exemption unless notice given and return made.

MR. A. K. MACLEAN: *Would the Minister briefly state the purpose of this section and how and when it could be utilized? Could you use it for instance in the case of brokers on an exchange?*

Trustees to deduct tax.

SIR THOMAS WHITE: *This section covers a class of trustees in whom securities are vested in trust to pay over the income. It is to ensure that the Government will get the tax from that source. We look to the trustees. Of course, if he pays it on behalf of the beneficiary, the beneficiary is made the allowance. This is taxation at its source.*

MR. MCKENZIE: *Is there anything in the Bill to cover estates? There are in this country large estates where money is accumulating, perhaps by reason of the children not being of age.*

SIR THOMAS WHITE: *A trustee, having property vested in him and having an income in respect of it, is liable to pay. If he pays, in respect of the share of income which the beneficiary receives, the beneficiary receives credit for that payment; but if, under the conditions of the trust under which he is acting, he gets income which he accumulates for those who may come into being, say a generation from now, he is liable as a person in respect of that income, so that estate is taxed.*

Annual
return to
Minister
of total
income.

7. (1) Every person liable to taxation under this Act shall, on or before the twenty-eighth day of February in each year, without any notice or demand, deliver to the Minister a return, in such form as the Minister may prescribe, of his total income during the last preceding calendar year. In such return the taxpayer shall state an address in Canada to which all notices and other documents to be mailed or served under this Act may be mailed or sent.

Returns, by
whom to be
made and
signed.

(2) The return in the case of a corporation,* association or other body, shall be made and signed by the president, secretary, treasurer or chief agent having a personal knowledge of the affairs of such corporation, association or other body, or, in any case, by such other person or persons employed in the business liable, or believed to be liable to taxation, as the Minister may require.

Return by
guardian,
legal repre-
sentative,
etc.

(3) If a person liable to taxation hereunder is unable for any reason to make the return required by this section, such return shall be made by the guardian, curator, tutor or other legal representative of such person, or if there is no such legal representative, by some one acting as agent for such person, and in the case of the estate of any deceased person, by the executor, administrator or heir of such deceased person, and if there is no person to make a return under the provisions of this subsection, then such person as may be required by the Minister to make such return.

Returns by
employers of
salaries and
by compan-
ies of divi-
dends, etc.

(4) All employers** shall make a return of all persons in their employ receiving any salary or other remuneration, any portion of which is liable to taxation under this Act, and all corporations, associations and syndicates shall make a return of all dividends and bonuses paid to shareholders and members. Such returns shall be delivered to the Minister on or before the

* Auditor's Balance Sheet and Profit and Loss Account must be forwarded with return.

** Return by employers to cover particulars of salaries of employees receiving \$1,000 or more per annum. Tax will not be deducted from salaries by employers.

SECTION 7—*Continued.*

twenty-eighth day of February* in each year, without any notice or demand being made therefor, and in such form as the Minister may prescribe.

(5) The Minister may at any time enlarge the time for making any return. Enlarging
time for
returns.

ON SECTION 7—ANNUAL RETURNS TO MINISTER OF TOTAL INCOME.

MR. MICHAUD: *Are special forms to be sent to the taxpayers?*

SIR THOMAS WHITE: *There are certain forms in the schedule, but we have power given under a later provision of the Act to call for such information as we require from the taxpayer, and the mode of administration will be just as under the Business Profit Tax, to send the necessary forms to citizens and to have them filled up and returned to the department.*

8. (1) If the Minister, in order to enable him to make an assessment, desires further information, or if he suspects that any person who has not made a return is liable to taxation hereunder, he may, by registered letter, require additional information, or a return containing such information as he deems necessary, to be furnished him within thirty days. Additional
information.

(2) The Minister may require the production, or the production on oath, by the taxpayer or by his agent or officer, or by any person or partnership holding, or paying, or liable to pay, any portion of the income of any taxpayer, of any letters, accounts, invoices, statements and other documents. Production
of letters, ac-
counts, etc.

(3) Any officer authorized thereto by the Minister may make such inquiry as he may deem necessary for ascertaining the income of any taxpayer, and for the purposes of such inquiry such officer shall have all the powers and authority of a commissioner appointed under Part I. of the *Inquiries Act*, Revised Statutes of Canada, 1906, chapter one hundred and four. Inquiry as
to income.

9. (1) For every default in complying with the provisions of the two next preceding sections, the taxpayer, and also the person or persons required to make Penalty.

* Time extended in 1918 to 31st March, 1918.

SECTION 9—Continued.

a return, shall each be liable on summary conviction to a penalty of one hundred dollars for each day during which the default continues.

False
statements.

Penalty.

(2) Any person making a false statement in any return or in any information required by the Minister, shall be liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment, or to both fine and imprisonment.

SIR WILFRID LAURIER: *By the preceding section the Minister may compel a man to produce letters, accounts, etc., on oath. Subsection 2 of section 9 says that "any person making a false statement" shall be liable on summary conviction to ascertain penalty. Now, if a man makes a false statement under oath he is guilty of perjury, and he ought to have the benefit of a jury, and not be tried simply by a magistrate.*

SIR THOMAS WHITE: *I think he would be liable to both. If a man commits perjury he would be liable under the Criminal Code. The provision in subsection of section 9 for a penalty on summary conviction is in addition to the penalties of the Criminal Code.*

MR. MICHAUD: *Under subsection 2 he would be liable to 6 months' imprisonment, and he could still be brought before a high court.*

SIR WILFRID LAURIER: *A man should not be subject to two trials and two penalties. It should be either the one or the other. It is all right to provide for a penalty on summary conviction, but if a man makes a false statement under oath he ought to be tried by jury.*

SIR THOMAS WHITE: *If he made a false statement in the returns he would be liable to the penalties provided here, and I think he could be proceeded against for perjury.*

MR. ROBB: *I call the Minister's attention to what seems to me to be a hardship. In section 7 (4) it is provided that:*

"Such returns shall be delivered to the Minister on or before the twenty-eighth day of February in each year, without any notice or demand being made therefor."

Then section 9 provides for a penalty of \$100 for each day during which the default continues. Now firms or individuals may unknowingly default.

SIR THOMAS WHITE: *Legislation of this kind always runs this way. There is confidence that the Government will not exercise the powers given here oppressively, in the case of a citizen defaulting unknowingly. It is necessary that the onus be put on the citizen of making the returns. But in the practical working out of the Act, just as in the Business Profits Tax Act the various officials throughout the country will send the forms out and keep in touch*

RE SECTION 9—Continued.

with the recipients until the returns are made. I think I can assure my hon. friend that no such injustice as he imagines may result will be done to citizens. It is a penalty not exceeding \$10,000. There is always discretion within the limits fixed. It might be a fine of \$10 or \$50.

MR. MARCIL: *Ignorance of the law is no excuse, but how is an ordinary citizen, who does not read our deliberations and who does not get the statutes, to know that he must make his returns before February 28th?*

SIR THOMAS WHITE: *We will contrive to let him know. We will get the organization, and secure information as to the citizens thought to be liable, give them the forms, and have these forms filled in. I admit it is a big task. At the present time we have the Business Profits War Tax organization. We have a Commissioner of Taxation, an assistant commissioner, and a staff in the Finance Department. Then we have representatives in every province from Nova Scotia to British Columbia. That organization can be extended by the addition of other officials. The whole Dominion is covered, and by the expansion of that staff the business profits taxation assessment could be made, and this taxation as well.*

SIR WILFRID LAURIER: *Men in the country may forget they are assessable. Will your officers look after the assessment rolls in every municipality, and search out the parties who are likely to be assessable?*

SIR THOMAS WHITE: *We shall be obliged to do it. We would not expect to administer this tax upon the unsolicited returns of the public. It would not be possible to do it. The country will have to be covered. It will have to be ascertained, so far as it can be, who are properly liable to assessment, and those persons will be notified, just as the Assessment Department here notifies taxpayers.*

10. (1) The Minister shall, on or before the thirtieth Assessment day of April in each year, or on or before such other date as he may in any case or cases prescribe, determine the several amounts payable for the tax, and shall thereupon send, by registered mail, a notice of assessment in such form as the Minister may prescribe to each taxpayer notifying him of the amount payable by him for the tax. The tax shall be paid within one month from the date of mailing of the notice of assessment. In default of payment, interest at the rate of seven per centum per annum shall be paid on such tax until the said tax and interest are paid. Date of payment.

(2) The Minister shall not be bound by any return or information supplied by or on behalf of a taxpayer, and notwithstanding such return or information, or if Minister not bound by returns.

SECTION 10—*Continued.*

no return has been made, the Minister may determine the amount of the tax to be paid by any person.

Continuation of liability for tax.

(3) Any person liable to pay the tax shall continue to be liable, and in case any person so liable shall fail to make a return as required by this Act, or shall make an incorrect or false return, and does not pay the tax in whole or in part, the Minister may at any time assess such person for the tax, or such portion thereof as he may be liable to pay, and may prescribe the time within which any appeals may be made under the provisions of this Act from the assessment, or from the decision of the Board, and may fix the date of payment of the tax.

Secrecy.

11. No person employed in the service of His Majesty shall communicate or allow to be communicated to any person not legally entitled thereto, any information obtained under the provisions of this Act, or allow any such person to inspect or have access to any written statement furnished under the provisions of this Act. Any person violating any of the provisions of this section shall be liable on summary conviction to a penalty not exceeding two hundred dollars.

Board of Referees.

12. (1) The Governor in Council may appoint a Board or Boards of Referees, and may prescribe the territory or district within which a Board shall exercise jurisdiction. A Board shall consist of not more than three members, and the members of a Board shall jointly and severally have all the powers and authority of a commissioner appointed under Part I. of the *Inquiries Act*, Revised Statutes of Canada, 1906, chapter one hundred and four.

Oath.

(2) Every member of the Board shall take an oath of office in form I of the Schedule to this Act before performing any duty under this Act. All affidavits made in pursuance of this subsection shall be filed with the Minister.

SIR WILFRID LAURIER: *How many of these boards will you have and will they be distributed over the country?*

RE SECTION 12—Continued.

SIR THOMAS WHITE: *That would depend on the number of appeals. From our experience of the Business Profits War Tax Act I should say that it would not be necessary to appoint permanent boards, but if there should be a number of appeals in, say, Nova Scotia, we would appoint a board of referees consisting of one, two or three members for the purpose of hearing and determining appeals. There may be very few appeals and there would be no use in appointing a permanent board in each province because that would involve considerable expense. We might appoint a county judge, or some lawyer of standing, or a business man, as the case might be, have a court of revision held and have the appeals disposed of in summary fashion.*

MR. ROBB: *What remuneration is provided for these referees?*

SIR THOMAS WHITE: *There is no remuneration fixed in the Act. It would be a matter of arrangement like the appointment of a commission under the Inquiries Act. I am told by the parliamentary counsel that it is not necessary to insert in the Act the amount of remuneration. It would only hamper us in the administration of the Act to do so. I should say that the usual fee of \$20, \$25 or \$30 a day for a lawyer or county judge acting as a referee would be paid, but I should not like to be confined to that.*

13. A Board shall act as a Court of Revision, and shall hear and determine any appeal made by a taxpayer under this Act in such place in Canada as the Minister may direct. Court of Revision.

14. Any person objecting to the amount at which he is assessed, or as having been wrongfully assessed, may, personally or by his agent, within twenty days after the date of mailing of the notice of assessment, as provided in section ten of this Act, give notice in writing to the Minister in form II. of the Schedule to this Act that he considers himself aggrieved for either of the causes aforesaid, otherwise such person's right to appeal shall cease, and the assessment made shall stand and be valid and binding upon all parties concerned, notwithstanding any defect, error or omission that may have been made therein, or in any proceeding required by this Act or any regulation hereunder: Provided, however, that the Minister, either before or after the expiry of the said twenty days, may give a taxpayer further time in which to appeal. Notice of appeal.

SECTION 15.

Hearing and
decision by
Board.

15. (1) A Board, after hearing any evidence adduced, and upon such other inquiry as it considers advisable, shall determine the matter and confirm or amend the assessment accordingly. A Board may increase the assessment in any case before it. The Board shall send a copy of its decision by registered mail to the taxpayer or his agent or officer.

Costs.

(2) In any case where the appeal is unsuccessful, the Board may direct that the person who appealed shall pay the costs or part of the costs of such appeal; and if such appeal is successful, a Board may recommend that the costs or any part thereof be paid by the Crown. The tariff of fees shall be as prescribed by the Board.

ON SECTION 15—HEARING AND DECISION BY BOARD.

Increase of
assessments
by Board.

MR. ROBB: *Does paragraph one of this section mean that the board has only the right to increase assessments?*

SIR THOMAS WHITE: *The board shall determine the matter. The matter will be the matter of the appeal. The taxpayer will be appealing on the ground that he is wrongfully assessed and it will be for the court to reduce or confirm the assessment. Then the power is given, if the court thinks it is a proper case, to raise the assessment. It is the same power that is exercised by the ordinary court of revision in regard to the assessment of real property.*

MR. ROBB: *Should it not read: "May increase or decrease the assessment"?*

SIR THOMAS WHITE: *I submit that the section as it appears is necessary for this reason: The appeal will be on the ground that the assessment is too high or that the assessment should not have been made. In determining the matter, it is clear that the board may reduce the assessment or hold that the party is not liable for it. The appeal will not be on the ground that the assessment should be increased. Therefore we think it necessary to provide that the court shall increase the assessment. If a party comes before the court and it appears that a mistake has been made, that he has not been assessed enough, he submits himself to the jurisdiction of the court and if the court says that his assessment shall be increased, it will only be because he is liable for an increased amount. No hardship can result to the man in question, because the assessment depends upon his return, and if the court should find that he is assessable for more than the amount for which he has been assessed, it only means that he has not made a proper return. If, in the course of the suitor's evidence, it transpires, under the questioning of the court, that his income, instead of being \$5,000, is \$20,000, the court says: Not only have you no cause for complaint, but it is clear that under this measure you should be assessed for*

RE SECTION 15—Continued.

\$20,000. It is most unlikely that any injustice would result from placing this power in the hands of the court.

16. If the taxpayer fails to appear, either in person or by agent, the Board may proceed *ex parte* or may defer the hearing. Proceeding *ex parte*.

17. If the taxpayer is dissatisfied with the decision of a Board, he may, within twenty days after the mailing of the decision, give a written notice to the Minister in form III of the Schedule to this Act that he desires to appeal from such decision. If the taxpayer gives such notice, or if the Minister is dissatisfied with the decision, the Minister shall refer the matter to the Exchequer Court of Canada for hearing and determination, and such reference may be made in form IV of the Schedule to this Act, and he shall notify the taxpayer by registered letter that he has made such reference. On any such reference the Court shall hear and consider such matter upon the papers and evidence referred, and upon any further evidence which the taxpayer or the Crown produces under the direction of the Court, and the decision of the Exchequer Court thereon shall be final and conclusive. Appeal to Exchequer Court.

18. Except as hereinafter expressly provided, the Exchequer Court shall have exclusive jurisdiction to hear and determine all questions that may arise in connection with any proceeding taken under this Act, and may award costs in connection therewith. Exclusive jurisdiction of Exchequer Court.

19. (1) No assessment shall be set aside by a Board or by the Court upon the ground that there has been any error or omission in connection with any proceedings required to be taken under this Act or any regulation hereunder, but such Board or Court in any case that may come before it may determine the true and proper amount of the tax to be paid hereunder. No assessment to be set aside for technical reasons.

(2) All the proceedings of the Board and of the Exchequer Court shall be held *in camerâ* if requested by the taxpayer. Proceedings *in camerâ*.

Tax a debt
due the
Crown.

20. The taxes and all interest and costs assessed or imposed under the provisions of this Act shall be recoverable as a debt due to His Majesty from the person on whom it is assessed or imposed.

Recovery of
tax, etc.

21. Any tax, interest, costs or penalty that may be assessed, recovered or imposed under this Act may, at the option of the Minister, be recovered and imposed in the Exchequer Court of Canada or in any other Court of competent jurisdiction in the name of His Majesty.

Minister to
administer
Act.

22. The Minister shall have the administration of this Act, and the control and management of the collection of the taxation levied hereby, and of all matters incident thereto, and of the officers and persons employed in that service. The Minister may make any regulations deemed necessary for carrying this Act into effect.

Regulations.

Appoint-
ment of
officers to
administer
Act and
their
salaries.

23. The Governor in Council may from time to time appoint officers and other persons to carry out this Act or any order in council or regulations made thereunder, and the Governor in Council may assign the names of office of such officers and other persons, and grant such salaries or pay for their services and responsibilities as he deems necessary and reasonable, and may appoint the times and manner in which the same shall be paid.

First return
under Act,
Feb. 28,
1918, and
1917 first
year's in-
come to be
taxed.

24. The first return to be made by taxpayers under section seven of this Act shall be made on or before the twenty-eighth day of February, one thousand nine hundred and eighteen,* and all taxpayers shall (subject to the provisions of subsection two of section four) be liable to taxation in respect of their income for the year ending the thirty-first day of December, one thousand nine hundred and seventeen, and for each year thereafter, as provided by this Act.

* Altered to 31st March, 1918.

SCHEDULE.

FORM I.

The Income War Tax Act, 1917.

I, make oath
and swear that I will faithfully and honestly fulfil the
duties which devolve upon me as a member of a Board
of Referees under *The Income War Tax Act, 1917.*

Sworn before me this

.....day of
.....A.D., 19....

FORM II.

The Income War Tax Act, 1917.

In the matter of the assessment of.....
To the Minister of Finance,

I hereby give notice that I object to the amount at
which I am assessed for the following reasons:

(here shortly describe reasons)

or, I am not liable to taxation under the above Act for
the following reasons:

(here shortly describe reasons)

Dated this.....day of.....19..

(Signature).....

FORM III.

The Income War Tax Act, 1917.

In the matter of the assessment of.....
To the Minister of Finance,

I hereby give notice that I am dissatisfied with the
decision given by the Board of Referees in this matter
for the following reasons:

(here shortly describe reasons)

and that I desire to appeal to the Exchequer Court of
Canada.

Dated this.....day of.....A.D., 19..

(Signature).....

SPECIMEN OF SAMPLE FORM T 1

As Published by the Department of Finance

PAGE 2

DESCRIPTION OF INCOME.

GROSS INCOME DERIVED FROM

1. Salaries and wages.....	<i>None</i>
2. Professions and vocations.....	<i>None</i>	—
3. Commissions.....	<i>from sale of Real Estate</i>	\$1000
4. Business, trade, commerce or sales or dealings in property, whether real or personal		7500
5. Farming (Horticulture, dairying or other branches)	<i>None</i>	—
6. Rents		750
7. Dividends (A). <i>Canadian Corporations—</i>		
	<i>Standard Transportation Company Ltd.</i>	25
	<i>Rainbow Mining Company Ltd.</i> ...	150
	(B). <i>Foreign Corporations—</i>	
	<i>New York Trading Company</i>	15
	<i>Albany Tool Company, Inc.</i>	66
8. Interest on notes, mortgages, bank deposits and securities other than reported in item 7		
	<i>Interest on Mortgages</i>	72
	<i>Bank Interest</i>	21
	<i>1200 Par Value Bonds of Jones Paint Co. Ltd.</i>	72
	<i>1000 Municipal Debentures, Town of Midvale</i>	55
9. Fiduciaries, (Income received from guardians, trustees, executors, administrators, agents, receivers or persons acting in a fiduciary capacity)—		
	<i>Income (not capital) from Estate of Andrew Doe (People's Trust Company, Executor)</i>	315
10. Royalties from mines, oil and gas wells, patents, franchises and other legalized privileges.....	<i>None</i>	—
11. Interest from Dominion of Canada Bonds, issued exempt from Income Tax \$3,000.....		150
12. Other sources not enumerated above—		
	$\frac{1}{2}$ <i>Interest in Shaw Hardware Company Partnership</i>)	750
13. Total Income		\$10,941

SPECIMEN OF SAMPLE FORM T 1

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EXEMPTIONS AND DEDUCTIONS.

AMOUNT CLAIMED FOR—

14. Depreciation..	<i>On Store Building (not land), (Brick)</i>	\$125
	<i>On Equipment, used in business.....</i>	140
	<i>Store Fixtures</i>	100
15. Bad debts, actually charged off within the year.....		40
16. Allowance for exhaustion of mines and wells....	<i>None</i>	—
17. Contributions actually paid to the Patriotic and Canadian Red Cross Funds and other approved War Funds.....	<i>Patriotic and Canadian Red Cross</i>	250
18. Interest paid on monies borrowed and used in the business.....	<i>Mortgage on Store Property, \$1000....</i>	60
19. Federal, Provincial and Municipal taxes on property used in the business—		
	<i>General Municipal Taxes</i>	180
20. Interest from Dominion of Canada Bonds, issued exempt from Income Tax		150
21. Other claims for deductions must be specified in detail—		
	<i>Business Operating Expenses</i>	4200
	<i>Repairs (stating particulars)</i>	150
22.	Total Exemptions and Deductions.....	\$5395
23. Amount paid under Business Profits War Tax Act, 1916, which accrued in the 1917 accounting period.....	<i>Year ending December 31, 1917—None.</i>	

I hereby certify that the foregoing return contains a true and complete statement of all income received by me during the year for which the return is made.

Date.....15th March, 1918.

Signature John Brown.



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